

SPPR Group Proposal

ED5-PVH Project

(Project)

Western's pursuit of a TIP-financed project to enhance the Parker-Davis Project transmission system South of Phoenix

June 22, 2011

October 6, 2010, Customer Meeting Recap

October 6th Presentation and Comments can be found at:

<http://www.wapa.gov/dsw/pwrmkt/Ed5>

Next Steps identified at October meeting:

- Receive and review customer comments and notify customers of decision on continuing the proposal

- If TIP funding for proposal will be requested:
 - Initiate NEPA documentation for the project
 - Develop Borrowing Authority request documentation
 - Develop draft contracts for proposal
 - Provide further detail of Facilities Use Charge to customers

Today's Agenda

Next Steps from Oct 6th:

- Customer Feedback and Decision Todd Rhoades
- Request for Borrowing Authority..... Todd Rhoades

ED5-Palo Verde Hub Project Proposal Todd Rhoades

- ED5-PV Hub Project Proposal..... Todd Rhoades
- Business Needs Todd Rhoades
- Marketability Todd Rhoades
- Cost and Financing Jack Murray
- Rate Treatment Jack Murray
- Benefits of Proposed Project Todd Rhoades
- Summary Todd Rhoades

Proposed Timeline Todd Rhoades

Discussion / Comments

Customer Feedback and Decision

- Western received 15 written comments to the October 23, 2010, presentation.
- The comments were supportive of the proposal.
- Letter to Parker-Davis Project (P-DP) Customers on November 19, 2010, stated:
 - As a result of dialog at meeting and supportive comments received, we were in a position to propose the Project to Western's Administrator and Transmission Infrastructure Project Office (TIP).
 - The proposal was brought before the Administrator and TIP last week, and Western has decided to move forward and pursue TIP borrowing authority to finance the Project.

Status of NEPA Process

NEPA Documentation

- Western initiated Environmental Assessment for the Project in December 2010.
- A public scoping meeting was held in Casa Grande on March 9, 2011.
- The Draft Environmental Assessment was submitted for public comment on June 10, 2011, with comments due by July 10, 2011.

<http://nepa.energy.gov/index.htm>

- Final Environmental Assessment at the end of July 2011

Request for Borrowing Authority

Borrowing Authority Request

- **Developed documentation for Borrowing Authority Request beginning November 2010 with initial documents completed mid-January 2011.**
- **A Project peer review was conducted by Bonneville Power Administration in January/February 2011.**
- **The Project was presented to the DOE Review Committee on June 21, 2011.**

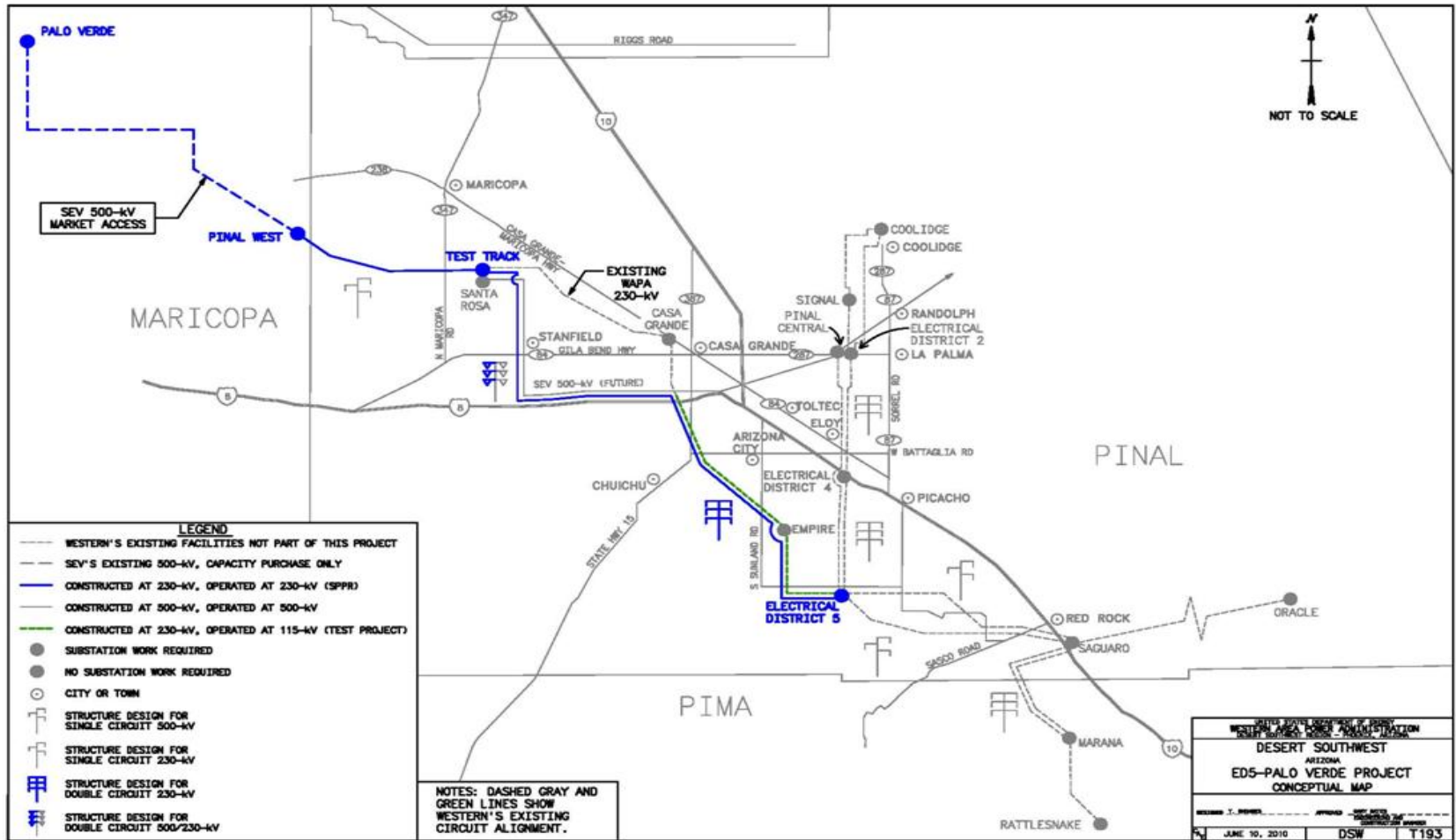
Status of Contracts/Agreements

- All major agreements have been drafted and substantially negotiated.
- Transmission Service Agreement has been executed with ED 4 for 156 MW of new service. Reassignments to other SPPR Group members will execute in August 2011.
- Facilities Use Charge agreements are drafted:
 - In review stage by customer group;
 - Proposal specifies annual update of charge amount via “attachment”; will include all annual costs including debt service and O&M; requires annual true-up of estimated vs. actual costs.

Project Proposal

- **Proposal resulted from SPPR Group's Statement of Interest on May 14, 2010.**
- **Proposed Project would support members' load growth and development of renewable generation in the area south of Phoenix.**
- **Proposal includes use of borrowing authority under Western's Transmission Infrastructure Program.**

ED5-Palo Verde Hub Project



Project Description

The major elements of the Project are:

- Transmission Rights on 500-kV Southeast Valley Project from Hassayampa to Duke/Test Track.
- Conversion of 230-kV switchyard at Test Track Substation from Ring Bus to Breaker-and-One-Half configuration and addition of new bays.
- Construction of a new 230-kV ED5-Test Track Line; this line is under built on the SEV 500-kV Pinal Central-Duke Line, and double circuited with Western's CAG-EMP-ED5 115-kV Line.
- Conversion of the ED5 115-kV Tap to a Breaker-and-One-Half switchyard (built to 230-kV standards) and interconnection of a new 230/115 transformer.

Estimated Construction Cost: \$79.3M; does not include financing and indirect costs.

Business Needs Met by the Proposed Project

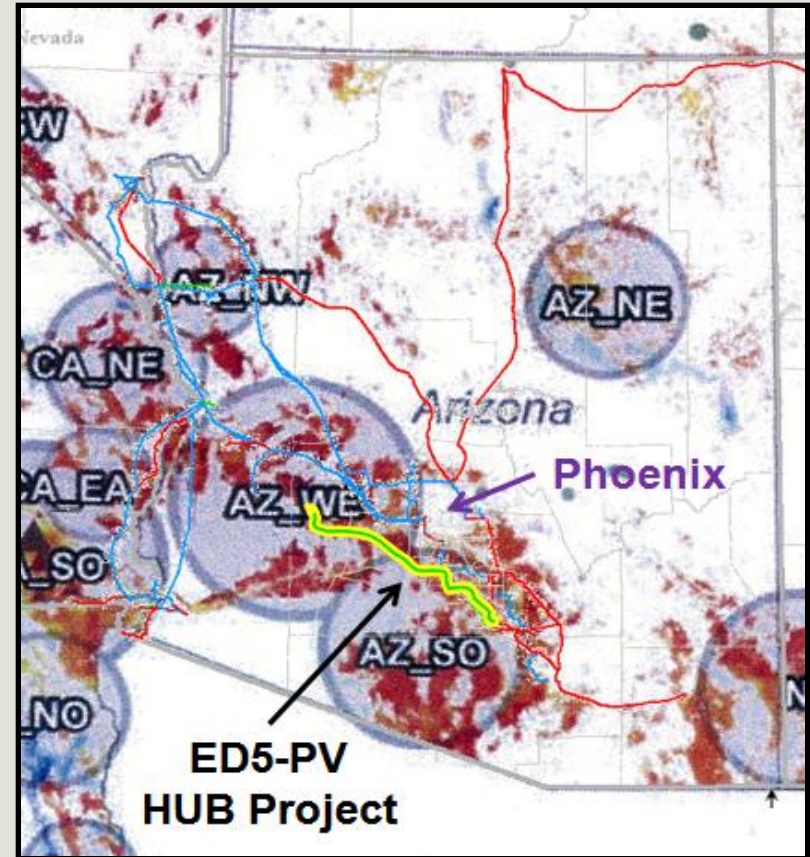
- **Responsive to customer request to accommodate future load growth**
- **Provides necessary upgrade to transmission system South of Phoenix**
- **Enhances reliability and improves safety**
- **Supports renewable generation development**
- **Enhances opportunity for additional transmission sales**
- **Creates additional market access**

Project Marketability

- New transmission capacity may attract generation and transmission Interconnection requests and the purchase of additional capacity.
- Western would be able to market unscheduled firm capacity as non-firm.
- Provides accessibility to Palo Verde Hub for all P-DP customers, potential renewable customers, and others.
- Customers will be able to continue using P-DP to meet their transmission needs instead of exploring alternatives.

Project Marketability – Renewable Resource

- › Western Governors' Association Western Renewable Energy Zones, Phase I Report, June 2009, cites the Phoenix, AZ, area, and particularly the area south of Phoenix, as noted in the WREZ Initiative Hub Map (page 12)



Project Cost & Financing

Estimated Construction Costs (in millions)	
New Transmission Rights (SEV Project)	\$27.7
New 23-kV Transmission Line (ED5-Test Track)	27.4
Additions/Upgrades at Substations (ED5 & Test Track)	24.2
Total	\$79.3
Est. Level Annual Payment including TIP Financing	\$4.4

- **TIP financing structure: Total 50-year repayment; series financing maturing each year for 30 years, with remaining balance refinanced at year 31 using a fixed (prevailing) interest rate.**
- **Level annual payment based on Treasury interest rates as of June 14, 2011.**

Project Proposed Rate Treatment

- All costs associated with the Project will be included in the P-DP rate base, but kept separate through a Facilities Use Charge.
- Revenue from the Project capacity upgrades will also be included in the P-DP rate base, but kept separate through a Facilities Use Charge to offset costs.
- The Beneficiaries and Participants of the Project share the costs and benefits via a Facilities Use Charge.
- This is an existing cost recovery mechanism and shields current customers from rate impacts.

Project

Facilities Use Charge Concepts/Principles

- Transmission customers of the newly created capacity must elect to be Beneficiaries of the Project.
- Existing P-DP customers can elect to become involved at any time and participate in the Project by voluntarily opting in, and are referred to as “Participants”.
- Beneficiaries must have both a transmission service and a facilities use agreement.
- Participants will continue to use existing transmission service agreements; will need Facilities Use Charge agreements; and must continue participation through the term of their transmission service agreements.

Project

Facilities Use Charge Concepts/Principles

- The Participants' share of the transmission revenue requirement will be included in the Facilities Use Charge.
- Beneficiaries and Participants will be charged for transmission and facilities use.
- Since Participant's share of the costs will be included in the facilities use charge, transmission charge will be fully credited.
- Result is payment only for facilities use and applicable ancillary services.
- Initial Beneficiaries that are existing P-DP customers may not reduce existing transmission reservations to take service under this Project.

Proposed Project Benefits

- “Right-sized” to promote renewable energy development in region, especially solar.
- Responds to customer request to work with them to serve load South of Phoenix.
- Reduces transmission rate pancaking for numerous P-DP customers.
- Reduces potential downside risk to current P-DP reservation levels if customers are not able to utilize P-DP system effectively.
- Stimulates the local economy through job creation and job retention.

Proposed Project Benefits *(Continued)*

- **Provides access to the Palo Verde Hub for P-DP customers.**
- **Insulates existing P-DP customers from Project-related rate increases while giving them an opportunity to participate.**
- **Provides funding for the 10-Year Plan ED5 Switchyard upgrade scheduled for construction beginning in FY 2014 and in-service in FY 2018.**

Project Proposal Summary

- The Project is currently proposed as a P-DP project financed by Western's TIP.
- Project Cost: \$79.4 million plus financing & indirect costs.
- Transmission service will be marketed through Western's Tariff.
- Executed Transmission Service Agreement for 156 MW.
- Use of Facilities Use Charge methodology insulates existing P-DP customers from Project impacts.

Proposed Timeline

- P-DP Customer meeting to present proposed plan June 22, 2011
- Executed Facilities Use Charge Agreement July 31, 2011
- Completed Environmental Assessment July 31, 2011
- Expected Project Funding Authorized Aug. 2, 2011
- Signed Transmission Right Assignment Agreements Aug. 10, 2011
- Signed 230-kV Underbuild Attachment Agreement Aug. 10, 2011
- Receive first TIP funding Aug. 15, 2011
- Initial Materials Ordered for Construction Sept. 15, 2011
- Construction Complete – System In-Service Jan. 1, 2015

Discussion / Comments

POC Information:

Project Management

Construction

Environmental

Planning & Technical Studies

Transmission Marketability

Finance and Rates

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